FACT SHEET
EX-IM BANK FEES FOR PROJECT FINANCE

FEES

Ex-Im Bank changed its pricing for project finance transactions in order to comply with the OECD Arrangement pricing rules that came into effect April 1, 1999.[1] The rules are designed by the OECD to level the playing field with respect to fees charged for officially supported export credits. The principles set minimum premium benchmarks (MPB's) for sovereign and country credit risks, regardless of whether the buyer or borrower is a private or public entity. The new MPB rules provide a price floor which should prevent variations in total fees charged by competing export credit agencies (ECA's) for officially supported financing.

Generally, ECA's cannot charge below the MPB unless the project qualifies for a Permitted Exception. (See below.) ECA's can, however, at their discretion set fees above the minimums. The MPB regime does not distinguish between commitment fees and exposure fees. Rather, the net present value (NPV) of all fees charged must be equal to or greater than the MPB. Political risk only transactions are allowed a 10 percent discount from the MPB. Key elements of the system include:

- Classifying countries into seven categories of risk.
- Establishing minimum premium rates for each category of risk.
- Applying surcharges or discounts to the premium rates to account for differences among export credit agency products (insurance v. guarantees, quality of coverage, etc.).[2]
- Establishing Permitted Exceptions (See Exhibit 2.) which allow discounts to the minimum rates in certain narrowly defined scenarios.

LIMITED-RECOURSE PROJECT FINANCE PRICING: AN OVERVIEW

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[1]Ex-Im Bank is a participant in the Arrangement on Guidelines for Officially Supported Export Credits. Other participants generally include the official export credit agencies of OECD countries.

[2]Due to the high quality of Ex-Im Bank's unconditional guarantee, it is defined by the OECD as an "Above Standard Product" which results in a surcharge to the MPB. Other ECA's may offer insurance products defined by the OECD as either "Standard" or "Below Standard" which may result in pricing which appears lower than Ex-Im Bank, but when adjusted for the quality between products is equivalent.

Ex-Im Bank charges two types of fees for project finance transactions - commitment fees and exposure fees. The total of these two categories of fees cannot be lower than the MPBs required by the OECD on an NPV basis. Other types of fees associated with a project financing charged by third parties such as outside legal, financial, and technical advisors to Ex-Im Bank are not included in our all-in-cost fee analysis to meet the MPB's.

Ex-Im Bank generally determines exposure fees using the Exposure Fee Calculator located on the Bank's Web page at www.exim.gov. However, project finance fees may differ from fees charged in Ex-Im Bank's other programs for several reasons, including:

- Different coverage options for pre- and post-completion periods.
- Different all-in-cost assumptions for determining exposure fees.
- Tailored repayment profiles and grace periods under the Project Finance Framework Agreement.
- Permitted Exceptions to the MPB.

In addition, due to the nature of limited-recourse project finance, and its reliance on complex contractual structures for repayment rather than a creditworthy sovereign or private sector borrower, the pricing of project finance transactions may differ significantly from the fees charged for standard export credits. For example, a country may have a very low (good) OECD rating due to a strong creditworthy sovereign, but have a weak legal or regulatory environment. In this situation, the sovereign MPB may not reflect the true risk of the transaction and therefore may not be indicative of the fees that would ultimately be charged.

Ex-Im Bank will also consider factors such as competitor practices when setting fees. When U.S. exporters or project sponsors are faced with competitors backed by official export credit agency support, Ex-Im Bank can price to meet the competition as appropriate.

COMMITMENT FEES

Commitment fees have been simplified under the new MPB system. Commitment fees are now ½ of one percent on the declining undisbursed amount of the construction loan, paid during the construction period, with no additional commitment fees for the first post-completion take-out option. If no cover is chosen during the pre-completion period, the commitment fee is 1/8th of one percent on the total amount of the take-out loan, paid during the construction period. If more than one post-completion option is chosen, commitment fees are an additional 1/8th of one percent on the total take-out amount(s) at completion for each option chosen, paid during the construction period.

EXPOSURE FEES - ESTIMATING A PRE-COMPLETION RANGE

Three levels of pre-completion exposure fees address three categories of risk: low, standard, and high. The low-risk category will apply only in very rare situations where country and commercial risks have been completely externalized during the construction period (e.g. an unconditional corporate guarantee from a creditworthy entity in a High Income OECD country). Standard risk will generally apply to transactions in exposure fee categories through fee level 5. High risk will generally apply to transactions in exposure fee categories 6-7. However, pre-completion exposure fees are set case by case, based on a project's unique risk profile. As a result fees may ultimately fall outside these indicative ranges.

Pre-Completion political risk only exposure fees may be estimated based on the credit availability period, and the degree of political risk, using the chart shown as *Exhibit 1*. Pre-completion comprehensive coverage exposure fees will be set on a case by case basis, taking into consideration the commercial risk profile of the construction period, the credit availability period, and the degree of political risk.

EXPOSURE FEES - ESTIMATING A POST-COMPLETION RANGE

When estimating the lower end of the range of post completion exposure fees, the starting point in most cases will be the sovereign benchmark. The sovereign benchmark can be estimated using the Exposure Fee Calculator located on Ex-Im Bank's internet web page at www.exim.gov. The higher end of the range of exposure fees will depend on the unique project risks associated with the particular transaction.

Infrastructure financing such as power projects will generally not qualify for Permitted Exceptions because of the lack of a hard currency earning revenue stream. As a result, infrastructure projects are likely to be priced at, or higher than, the sovereign benchmark. Hard currency earning projects such as oil and gas projects or mining projects may qualify for Permitted Exceptions as described in *Exhibit 2*, and can therefore be priced lower than the sovereign benchmark.

Ex-Im Bank pricing for project finance transactions reflects certain all-in-cost assumptions. For example, we include certain commitment fees[3] and both pre and post-completion exposure fees in order to meet the MPB. Project finance will consider the following other factors when determining the final fees:

- Eligible financing amount & coverages requested
- Method of exposure fees payment & whether exposure fees are financed
- Commitment fees charged
- The length of disbursement period (in months) and drawdown profile

- The length of repayment period and repayment profile
- The annual discount rate (generally the six month average CIRR rate)

For example, projects with lengthy disbursement periods, or projects that finance fees will have higher nominal fees than projects with front-ended disbursement periods or projects in which exposure fees are not financed. Also, transactions with tailored repayment profiles that reduce (or increase) the average life of the debt will have exposure fees that will be lower (or higher) than for transactions with a straight line repayment profiles.

Note that although Ex-Im Bank's fee determination is based on a net present value basis, rough estimates of fees can be determined by using nominal numbers. Minimum exposure fees may

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[3]Commitment fees for one option pre-completion and one option post-completion will be included in the all-in-cost analysis to meet the MPB. If additional post-completion options are chosen, the fees for selected options will be in addition to those calculated to meet the MPB.

be estimated by following the steps below. Indicative fees are also included in *Exhibit 1*.

1. Estimate the MPB by using the Fee Calculator at www.exim.gov, which provides the sovereign benchmark fee. Convert this fee into a NPV. Note that the sovereign benchmark includes both the pre and post-completion exposure fees as well as commitment fees.

2. Discount the result in Step 1 by the appropriate percentage (if any) for projects which qualify for Permitted Exceptions as outlined in *Exhibit 2*.

3. Deduct from the result in Step 2 the NPV of commitment fees.

4. Split the exposure fee into pre-completion and post-completion components, by:

    (i) for the pre-completion fee, take the pre-completion political risk only fee from the matrix in *Exhibit 1*[4], and convert it into an NPV; and,

    (ii) for the post-completion fee, subtract the NPV of the pre-completion exposure fees from the NPV of the total exposure fee in Step 3, and convert this into nominal terms.

[4]For comprehensive coverage pre-completion, please contact the Business Development Division.

ESTIMATING MINIMUM PROJECT FINANCE EXPOSURE FEES - EXAMPLES

Pre - Completion, Political Risk Only Coverage
Indicative Minimum Pricing for Project Finance

(The fees below represent minimums - actual fees may be higher)

Credit Availability Period (in Years)	Risk Classification		
	Low	**Standard**	**High**
2	0.75	1.13	1.38
3	1.14	1.66	1.98
4	1.5	2.26	2.76

Post - Completion, Comprehenisve Coverage
Indicative Minimum Pricing Examples for Project Finance

(The fees below represent minimums - actual fees may be higher)

Local Currency Earning Projects

Repayment Term	*Discount*	**Fee Level 4**	**Fee Level 5**	**Fee Level 6**
10 Years	N/A - No P.E.*	6.04	10.09	14.37
12 Years	N/A - No P.E.	7.76	12.61	17.77

(*P.E. denotes Permitted Exception)

Hard Currency Earning Projects

Repayment Term	*Discount*	**Fee Level 4**	**Fee Level 5**	**Fee Level 6**
10 Years	20% Qualified P.E.	4.15	7.39	10.81
12 Years	20% Qualified P.E.	5.52	9.4	13.52

(*P.E. denotes Permitted Exception)

Assumptions for Post-Completion Indicative Fees:

Repayment in equal semi-annual principal installments
Comprehensive Coverage Post-Completion
Post-Completion exposure fees financed and paid at completion
36 month disbursement period, straightline drawdown profile
Annual Discount Rate, 6 month average CIRR Rate, 4.75% at 6/99

EXHIBIT 2: PERMITTED EXCEPTIONS TO THE MPB'S

There are ten Permitted Exceptions allowed under the MPB system, which provide for discounts to the MPB. Generally, Permitted Exceptions are maximum discounts that must be justified on a case by case basis. If a specific project qualifies for a Permitted Exception, it does not set a precedent for any future transactions. In order for a Permitted Exception to apply, it must meet the OECD criteria for the entire duration of the indebtedness.

Of the ten Permitted Exceptions, the most likely one applicable to limited recourse project finance is *Offshore Future Flow Structure Combined with Offshore Escrow Account*, as defined by the OECD. To qualify for this Permitted Exception, all of the following criteria must be satisfied:

- Hard currency earning project revenues flow into an escrow account.
- The escrowaccount is held offshore in a country which has a very limited possibility of transfer or country risks (such as a High-Income OECD country).
- The escrow account must be held at a creditworthy financial institution.
- The funding of the escrow account is through long-term or other appropriate contracts with creditworthy foreign customers located in better risk countries than the country of the borrower.
- The borrower must irrevocably instruct the payment of project revenues directly into the escrow account.
- The account is secured as collateral for the benefit of the lenders.

If all the above Permitted Exception criteria are met, the following discounts may apply (note, these are maximum percentages applicable to the borrower, the actual discount may be less based on unique project characteristics):

1. A 20 percent discount of the MPB if all the above conditions are met;
2. A 30 percent discount of the MPB if all the above conditions are met and: either the project's Loan Life Coverage Ratio (LLCR) averages at least 1.75:1 OR there is at least 9 months of debt serve pre-funded in a debt service reserve account.
3. A 40 percent discount of the MPB if the above conditions are met and: (a) the projected LLCR averages at least 2.5:1 OR the projected LLCR averages at least 2.0:1 and the projected annual debt service coverage ratio (ADSCR) is not less than 1.0:1; and (b) there is at least 12 months of debt service pre-funded in a debt service reserve account.

The LLCR and ADSCR ratios have agreed upon definitions among the OECD participants. In addition, for the 30 percent or 40 percent discounts to apply, the borrower must be a private entity, with private ownership of at least 80 percent.

MORE INFORMATION

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